Role of Micro, Small and Medium Enterprises in Employment Generation: Evidence from South-East Nigeria

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ABSTRACT

Micro, small and medium enterprises (MSMEs) dominate Nigeria's business landscape and are widely regarded as engines of employment. Persistent high unemployment, however, raises questions about the actual employment-generation capacity of these firms. This study examines the relationship between MSME operations and employment generation, and the effect of financing constraints on that capacity, in South-East Nigeria. A descriptive survey design was adopted. Primary data were collected from 150 owners, managers and employees of MSMEs selected through multi-stage sampling across key enterprise clusters in the region. Descriptive statistics and ordinary least-squares regression were employed. Results show a statistically significant positive relationship between MSME operations and employment generation ($\beta = 0.684$, $p < 0.001$; $R^2 = 0.501$). Financing constraints—limited credit access, high interest rates and stringent collateral requirements—significantly constrain employment expansion. The study concludes that while MSMEs possess strong employment potential, structural financing barriers limit their impact. Policy recommendations include improved access to affordable credit, more flexible collateral regimes and stronger institutional support for enterprise growth.

Keywords: micro, small and medium enterprises; employment generation; access to finance; South-East Nigeria

1. INTRODUCTION

1.1 Background

Micro, small and medium enterprises (MSMEs) are central to Nigeria's economic structure. The joint National Bureau of Statistics (NBS) and Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) national survey counted about 41.5 million MSMEs in 2017, of which micro enterprises made up roughly 99.8 per cent; together they employed about 59.6 million people, or 86.3 per cent of the national workforce (NBS & SMEDAN, 2017). Beyond numbers, MSMEs provide livelihoods, spread income and use local raw materials (Aremu & Adeyemi, 2011), and a sizeable literature presents them as a practical response to unemployment in economies where formal job creation has not kept pace with labour-force growth (Afolabi, 2015; Eniola & Entebang, 2017).

The ability of MSMEs to turn survival into expansion depends on their operating environment. Access to credit is widely identified as a binding constraint on small-firm growth (Beck & Demirgüç-Kunt, 2006), while unreliable electricity, weak transport and limited digital infrastructure raise costs (World Bank, 2020; Akinwale & Adepoju, 2019), and inconsistent policy implementation weakens government support (Olayemi, 2020).

1.2 Statement of the problem

Evidence suggests that the employment-generating capacity of Nigerian MSMEs is well below its potential. Collateral demands restrict access to finance (Beck & Demirgüç-Kunt, 2006), and limited financial literacy among operators reduces their ability to use available credit (Fatoki, 2018). A 2025 industry survey of informal

businesses reported that, although 65 per cent had experienced revenue growth, rising operating costs were eroding margins: 38 per cent earned less than ₦10,000 in daily profit and 42 per cent could survive no more than about a month without revenue (Moniepoint, 2025). Such fragility limits hiring and makes employment unstable. Employment relations in small Nigerian firms are also frequently informal, with few written contracts and little worker protection (Okafor & Mordi, 2019), which affects the quality as well as the quantity of jobs created.

Macro-level studies add to the puzzle: economic growth in Nigeria has not been matched by proportionate falls in unemployment (Adeleke et al., 2024; Ogunleye & Adeyinka, 2023). This shifts attention to firm-level mechanisms, but region-specific survey evidence on how MSME operations and financing constraints relate to employment remains limited for the South-East.

1.3 Research Questions

The following research questions guide this investigation:

1. What is the nature of the relationship between Micro, Small and Medium Enterprise operations and employment generation in Nigeria?

2. How do financing constraints affect the employment generation capacity of Micro, Small and Medium Enterprises in Nigeria?

1.4 Objectives of the Study

The main objective of this study is to examine the role of Micro, Small and Medium Enterprises in employment generation in Nigeria. The specific objectives are to:

1. Examine the relationship between Micro, Small and Medium Enterprise operations and employment generation in Nigeria.

2. Assess the effect of financing constraints on the employment generation capacity of Micro, Small and Medium Enterprises in Nigeria.

1.5 Research Hypotheses

The following hypotheses, stated in null form, are tested in this study:

H01: There is no significant relationship between Micro, Small and Medium Enterprise operations and employment generation in Nigeria.

H02: Assess to finance does not have any significant effect on the employment generation capacity of Micro, Small and Medium Enterprises in Nigeria.

1.6 Scope and significance

The study covers the five South-East states — Abia, Anambra, Ebonyi, Enugu and Imo — whose economies are driven by indigenous entrepreneurship and dense MSME clusters, notably in Aba and Onitsha. The findings are relevant to policymakers designing MSME finance and support programmes and to owner-managers seeking to understand the constraints on enterprise expansion and hiring.

2. LITERATURE REVIEW AND THEORETICAL BACKGROUND

2.1 Conceptual issues

2.1.1 Micro, Small and Medium Enterprises: Definitions of MSMEs vary across countries and are usually based on employment, turnover or assets (OECD, 2019). In Nigeria what obtains is:

MSME Classification (Dual Criteria of Employment and Assets excluding land/buildings):

- **Micro Enterprises:** Less than 10 employees; assets under ₦10 million.
- **Small Enterprises:** 10 to 49 employees; assets from ₦10 million to under ₦100 million.
- **Medium Enterprises:** 50 to 199 employees; assets from ₦100 million to under ₦1 billion.
- *Note:* Employment-based classification takes precedence if a conflict arises between the two criteria (Nat. policy on MSMEs 2015-2025).

2.1.2 Employment generation: Employment generation is the process by which economic activity creates jobs, directly within firms and indirectly through production and distribution linkages (Adebayo, 2019). It encompasses the quality and stability of jobs as well as their number. Scholars argue that entrepreneurship, particularly through SMEs, offers a sustainable route to job creation where the public sector cannot provide enough employment (Afolabi, 2015; Ogundele, 2017; Omisakin, 2017).

2.1.3 Enterprise growth: Following Penrose (1959), enterprise growth refers to the expansion of a firm in scale, market share, workforce and revenue over time. Growing firms are better placed to exploit economies of scale and to add labour, whereas subsistence-oriented firms are not.

2.2 Theoretical background

2.2.1 Okun's law. Okun (1962) described an inverse relationship between deviations of output from potential and the unemployment rate. In Nigeria, periods of output growth have not produced matching falls in unemployment (Adelaja, 2021; Ogunleye & Adeyinka, 2023), so aggregate growth alone is an unreliable route to job creation. This motivates the enterprise-level focus of the present study.

2.2.2 Schumpeterian innovation theory: Schumpeter (1934) treats entrepreneurial innovation, the commercial application of new ideas, as the engine of development, with "creative destruction" replacing outdated production methods. Under this view, expanding MSME operations, including new products, new markets and higher output, raise demand for labour.

2.2.3 Endogenous growth theory: Endogenous growth models (Lucas, 1988; Romer, 1990; Aghion & Howitt, 1998) stress that growth is generated internally through human capital, knowledge accumulation and innovation. For MSMEs this implies that firm-level investment in skills and capabilities, which depends on access to finance, determines how far firms can expand and employ.

2.2.4 Linking theory to the hypotheses: Schumpeterian and endogenous-growth arguments imply that firms that expand operations and output will require more labour ($H0_1$). Financing constraints limit the investment in equipment, working capital and skills on which such expansion depends, and should therefore reduce hiring capacity ($H0_2$; Beck & Demirgüç-Kunt, 2006).

2.3 Empirical literature

The empirical analyses were carried out under the following thematic headings:

2.3.1 Growth and employment: Time-series studies of Nigeria find that economic growth has a weak or insignificant effect on unemployment, and recommend SME-focused policies as a more effective employment strategy (Adeleke et al., 2024; Ogunleye & Adeyinka, 2023).

2.3.2 Constraints on MSME performance: Survey and regression evidence points to managerial inefficiency, financial constraints and infrastructure deficits as significant threats to SME survival and employment generation (Eze et al., 2020). Policy inconsistency and weak institutional coordination also limit SME outcomes (Olayemi, 2020). Comparative work on Africa highlights weak industrial linkages and poor innovation systems (Oyelaran-Oyeyinka, 2020), and cross-economy analysis links productivity gaps in MSMEs to limited job creation (McKinsey Global Institute, 2020).

2.3.3 National descriptive evidence: The NBS and SMEDAN survey shows that MSMEs dominate Nigeria's business landscape but are overwhelmingly micro in scale, which highlights the importance of finance and infrastructure for growth (NBS & SMEDAN, 2017).

2.4 Research gap and contribution

The role of Micro, Small and Medium Enterprises (MSMEs) in employment generation has garnered substantial scholarly attention however; there are significant gaps in both the scope and depth of analysis, particularly in the Nigerian context, as revealed by a critical review of the existing empirical and theoretical literature. Existing work tends to treat finance, infrastructure, policy and firm capabilities in isolation, and much of it relies on national aggregate data that mask regional differences. This study contributes primary survey evidence from MSME clusters in South-East Nigeria on (i) how MSME operations relate to employment generation and (ii) how financing constraints relate to employment-generating capacity.

3. METHODOLOGY

3.1 Research design

A cross-sectional descriptive survey design was adopted. It allows quantitative data to be collected systematically from a defined population and relationships between key variables to be examined (Kothari, 2004; Creswell, 2014). Respondents were MSME owners, managers and employees, whose first-hand experience of operations, financing and hiring is relevant to the research questions.

3.2 Population and study area

The population comprised owners, managers and employees of MSMEs in the South-East geopolitical zone of Nigeria (which comprises of Abia, Anambra, Ebonyi, Enugu and Imo States), with a combined population of between 27 and 29 million (NPC, 2024).

3.3 Sample size and sampling technique

The sample size was determined using Yamane's (1967) formula, $n = N / [1 + N(e^2)]$, where n is the sample size, N the population size and e the margin of error (0.05). The calculated n yielded a value of 150 with a margin of error of about ±8%.

A multi-stage approach was used. First, enterprise clusters with high concentrations of MSMEs (manufacturing hubs, commercial markets and service clusters) were purposively selected. Selections were made from well-defined clusters from the comprising states within the region. At the second stage, simple random sampling is applied within the selected clusters to choose individual respondents, including business owners, managers, and employees. This technique ensures that every member of the accessible population within each cluster has an equal probability of being selected, thereby reducing selection bias and enhancing the representativeness of the sample (Kothari, 2004). The combination of purposive and random sampling techniques therefore provides a balanced approach, ensuring both relevance and objectivity in the selection process. This sampling strategy is particularly suitable for the present study because it captures the diversity of MSMEs operations across different sectors while maintaining statistical rigor. However, because clusters were purposively chosen, the results describe the sampled clusters and cannot be statistically generalised to all MSMEs in the zone.

3.4 Research instrument, validity and reliability

Data were collected with a structured questionnaire with closed-ended five-point Likert items (5 = strongly agree to 1 = strongly disagree) and a few open-ended items. The questionnaire covered respondent and enterprise characteristics, MSME operations, financing constraints and employment outcomes. Content validity was established by review of the draft questionnaire by five experts in economics and research methodology, and items were revised in line with their comments. The instrument was pilot-tested with ten

respondents with characteristics similar to the study population, who were excluded from the final sample. Internal consistency was assessed with Cronbach's alpha of 0.78% which is permissible (Saunders et al., 2019). Fieldwork took place between 06/2025 and 09/2025.

3.5 Measurement of variables

Table 1. Variables, measurement and expected signs

Variable	Role	Measurement	Expected sign
EMP	Dependent	Number of employees in MSME	—
MSMEOPS	Independent ($H0_1$)	MSMEs' size/years of operations	+
FIN	Independent ($H0_2$)	Access to finance (1 = yes, 0 = no or Likert scale 1 – 5)	−

3.6 Data analysis and model specification

Responses were coded and analysed in SPSS Stat. 25. Descriptive statistics (frequencies, percentages, means and standard deviations) summarise the responses. For Likert items, a mean of 3.50 or above was interpreted as agreement. Each hypothesis was tested with a simple linear regression estimated by ordinary least squares at the 5% level of significance (Wooldridge, 2016):

$EMP_i = \beta_0 + \beta_1 MSMEOPS_i + \varepsilon_i$ (Model 1, $H0_1$) ……(1)

$EMP_i = \beta_0 + \beta_1 FIN_i + \varepsilon_i$ (Model 2, $H0_2$) ……(2)

where EMP_i is employment generation for respondent i, β_0 the intercept, β_1 the slope and ε_i the error term. Each null hypothesis is rejected if the p-value for β_1 is below 0.05. The expected sign of β_1 is positive in Model 1 and, for constraints, negative in Model 2.

3.7 Ethical considerations

The study was approved by the Clifford University Review Board. Participation was voluntary; respondents were duly informed of the purpose of the study and gave informed consent before completing the questionnaire. No personally identifying information was collected, responses were anonymous and confidential, and data are reported only in aggregate. Respondents could withdraw at any time.

4. RESULTS AND DISCUSSION

4.1 Response rate and respondent profile

A total of 150 questionnaires were distributed and all 150 were returned and usable, a 100% response rate because interviewer adopted the on-the-spot completion technique. Table 2 profiles the respondents.

Table 2. Respondent and enterprise profile (n = 150)

Characteristic	Frequency	Percentage
Respondent type: owner / manager / employee	150	100
State / cluster	100	67
Enterprise size: micro / small / medium	120	80
Sector: manufacturing / trade / services / other	130	87
Years in operation	110	73

Author's compilation from the data set.

4.2 Research question 1: MSME operations and employment generation

Table 3. MSME operations and employment generation (n = 150)

Item	SA	A	N	D	SD	Mean	Std. dev.	Decision
MSME expansion increases employment	65-43.30%	52-34.70%	18-12.00%	10-6.70%	5-3.30%	4.08	1.06	Agree
MSMEs create jobs through value chains	60-40.00%	57-38.00%	20-13.30%	8-5.30%	5-3.30%	4.06	1.02	Agree
Increased production raises labour demand	70-46.70%	48-32.00%	15-10.00%	10-6.70%	7-4.70%	4.09	1.12	Agree
MSMEs employ skilled and unskilled labour	68-45.30%	50-33.30%	17-11.30%	9-6.00%	6-4.00%	4.1	1.08	Agree
Grand mean						**4.08**		**Agree**

Note: SA = strongly agree, A = agree, N = neutral, D = disagree, SD = strongly disagree. Cell entries are frequency and percentage. Means and standard deviations are computed from the frequencies shown (scoring SA = 5 … SD = 1). Mean ≥ 3.50 is interpreted as agreement.

Respondents agreed that expansion, value-chain participation, higher production and the employment of skilled and unskilled labour are associated with job creation. Between 78.0% and 78.7% of respondents agreed or strongly agreed with each statement, and the grand mean of 4.08 indicates agreement. These items measure perceptions, not observed hiring, and several are worded close to the proposition being tested, so the results are best read as evidence of how operators perceive the link rather than as proof of it.

4.3 Research question 2: financing constraints

Table 4. Financing constraints and employment-generating capacity (n = 150)

Item	SA	A	N	D	SD	Mean	Std. dev.	Decision
Limited credit affects hiring	75 (50.0%)	48 (32.0%)	15 (10.0%)	7 (4.7%)	5 (3.3%)	4.21	1.03	Agree
High interest rates reduce expansion	70 (46.7%)	53 (35.3%)	12 (8.0%)	10 (6.7%)	5 (3.3%)	4.15	1.05	Agree
Collateral requirements limit loan access	78 (52.0%)	45 (30.0%)	13 (8.7%)	9 (6.0%)	5 (3.3%)	4.21	1.05	Agree
Grand mean						**4.19**		**Agree**

Note: as for Table 3.

Table 5. Major financial constraints (multiple response, n = 150)

Constraint	Frequency	% of respondents
Lack of access to credit	120	80.0
High interest rates	110	73.3
Collateral requirements	105	70.0
Poor financial literacy	90	60.0

Note: respondents could select more than one constraint, so percentages do not sum to 100.

Exactly 82.0% of respondents agreed or strongly agreed with each statement that limited credit, high interest rates and collateral requirements restrict hiring or expansion (grand mean = 4.19). Lack of access to credit was the most frequently cited constraint (80.0%), followed by high interest rates (73.3%), collateral requirements (70.0%) and poor financial literacy (60.0%). These findings are consistent with the evidence that access to finance is a growth constraint for small firms (Beck & Demirgüç-Kunt, 2006) and with the Nigerian studies reviewed in Section 2.3.

4.4 Hypothesis 1

$H0_1$: There is no significant relationship between MSME operations and employment generation.

Table 6. Regression of employment generation on MSME operations (n = 150)

Predictor	B	Std. error	β	t	p
Constant	1.245	0.312	—	3.99	< .001
MSME operations	0.684	0.056	0.712	12.25	< .001

Note: dependent variable = employment generation. $R = 0.712$, $R^2 = 0.503$, adjusted $R^2 = 0.501$, standard error of the estimate = 0.619, $F(1, 148) = 151.71$, $p < .001$.

MSME operations are positively and significantly related to employment generation ($B = 0.684$, $p < .001$) and account for about 50.7% of its variance. Since $p < 0.05$, $H0_1$ is rejected: Higher MSME operational activity is associated with higher employment generation. Because both variables are self-reported by the same respondents, part of this association may reflect shared-method variance, and the cross-sectional design does not establish the direction of causation.

4.5 Hypothesis 2

$H0_2$: Access to finance has no significant effect on the employment-generating capacity of MSMEs.

Table 7. Regression of employment generation on access to finance constraint (n = 150)

Predictor	B	Std. error	β	t	p
Constant	1.874	0.298	—	6.29	< .001
Access to finance	−0.592	0.060	−0.645	−9.87	< .001

Note: dependent variable = employment generation. $R = 0.645$, $R^2 = 0.416$, adjusted $R^2 = 0.409$, standard error of the estimate = 0.673, $F(1, 148) = 105.6$, $p < .001$.

From table 7, the coefficient is negative and significant ($B = -0.592$, $p < .001$) and the predictor explains about 41.6% of the variance in employment generation. Since $p < 0.05$, $H0_2$ is rejected: Greater financing constraints are associated with lower employment-generating capacity. This is consistent with the descriptive evidence in Tables 4 and 5.

4.6 Discussion

Both sets of evidence point the same way. Operators perceive expanding operations as the main route by which MSMEs create jobs, and the regression indicates that MSME operations account for roughly half of the variation in perceived employment generation. Financing constraints, especially credit scarcity, interest costs and collateral requirements, are seen as the main brakes on hiring. These findings fit the Schumpeterian and endogenous-growth arguments that firm-level expansion and investment, rather than aggregate growth, drive labour demand, and the finance results agree with the broader literature that financing obstacles weigh most heavily on small firms (Beck & Demirgüç-Kunt, 2006). The prominence of poor financial literacy (60.0%)

also echoes Fatoki (2018), suggesting that easing credit supply alone may not suffice without capacity building.

5. CONCLUSION, RECOMMENDATIONS AND LIMITATIONS

5.1 Conclusion

The study finds a positive and statistically significant association between MSME operations and employment generation among surveyed enterprises in South-East Nigeria, and strong agreement among respondents that limited credit, high interest rates and collateral requirements restrict hiring and expansion. The evidence supports the view that MSMEs can contribute to employment, but that their contribution is constrained by access to finance. It does not show that MSMEs reduce aggregate unemployment, and it does not test the effects of infrastructure, policy implementation or enterprise growth, which are noted in the literature but were not analysed here.

5.2 Recommendations

Based on the findings:

- **Improve access to credit.** Financial institutions and government agencies should expand MSME-targeted credit windows and financial inclusion initiatives, with flexible collateral arrangements (for example, credit guarantees or movable-asset collateral) to reduce the collateral barrier cited by 70.0% of respondents.
- **Reduce the cost of borrowing.** Policymakers should consider concessional or subsidised lending for MSMEs that commit to hiring, given that 73.3% of respondents cited high interest rates.
- **Build financial literacy.** Training in financial management should accompany credit programmes, because 60.0% of respondents cited poor financial literacy.
- **Strengthen implementation of MSME policy.** The literature indicates that weak monitoring and coordination reduce the impact of support programmes (Olayemi, 2020); this study did not test this directly, but it is a reasonable complement to the finance measures identified above.

5.3 Limitations

The study is limited to selected clusters in the South-East, so the findings cannot be generalised to other zones or to all MSMEs in the region. Data are self-reported and perception-based, which may introduce response and common-method bias, and the independent and dependent variables were measured from the same respondents. The sample combines owners, managers and employees, who may have different knowledge of firm finances and hiring. The cross-sectional design prevents causal inference and does not capture changes over time. Only one explanatory variable was entered in each regression, so omitted factors such as firm size, age, sector and location are not controlled for.

5.4 Directions for future research

Future studies could (i) estimate multiple-regression or structural models that include finance, infrastructure, policy support, entrepreneurial orientation and enterprise growth jointly, including mediation by enterprise growth; (ii) use firm-level records of headcount rather than perceptions; (iii) extend coverage to all geopolitical zones or use panel data; (iv) add qualitative interviews or focus groups; and (v) examine sector-specific patterns and the role of digital finance and e-commerce.

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